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Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative

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Summary

In a speech on March 14, 2002, President Bush outlined a proposal for a major new U.S. foreign aid initiative. The program, referred to as the Millennium Challenge Account (MCA), is managed by a new Millennium Challenge Corporation (MCC) and provides assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom. If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s.

The MCC differs in several respects from past and current U.S. aid practices:

- the size of the $5 billion commitment;
- the competitive process that rewards countries for past and current actions measured by 16 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The Administration sought $1.3 billion for the MCA's first year (FY2004), $2.5 billion for FY2005, amounts reduced by Congress to a combined $2.48 billion, about one-third less requested. The President seeks $3 billion for FY2006, double the FY2005 level but less than the original $5 billion commitment for the third year.

The passage of legislation on January 23, 2004, establishing the MCC (P.L. 108-199) launched a period in which the new Corporation formed, issued required reports, consulted with Congress and the public, and selected on May 6 and November 8, 2004, eligible countries for FY2004 and FY2005, respectively. Other MCA implementation matters unfolded throughout 2004, including a discussion of the relationship of MCA programs with those operated by USAID, how the Corporation and USAID will support "threshold" countries, and the funding of programs, or "compacts," for those qualified under the FY2004 selection process. The Corporation signed the first Compact with Madagascar on April 18, 2005, and announced in mid-May agreement with Honduras for a second Compact.

A growing question raised by some Members of Congress concerns the level of funding to support MCC programs. Some, noting that proposals received by the Corporation in 2004 totaled more than $4.2 billion, fear that insufficient funds might force the MCC to reduce the number of recipients or the size of the grants. Others, however, believe that the slower-than-anticipated pace of Compact agreements means that the Corporation has or will have enough resources, and may propose reductions to the $3 billion FY2006 request.

This report will be updated as events unfold.

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In a speech on March 14, 2002, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. The funds, referred to as the Millennium Challenge Account (MCA), is managed by a new Millennium Challenge Corporation (MCC) providing assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas:

- Ruling justly — promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.
- Investing in people — providing adequate health care, education, and other opportunities promoting an educated and healthy population.
- Fostering enterprise and entrepreneurship — promoting open markets and sustainable budgets.

If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s. It would also represent a fundamental change in the way the United States invests and delivers economic assistance.

While the program was established and initially funded during the 108th Congress, the 109th Congress will debate a major appropriation increase — to $3 billion — proposed for the MCA. Committees of jurisdiction have held several oversight hearings, and could consider changes to the authorizing legislation concerning such matters as selection criteria and methodology, operation and funding of the "threshold" programs for those countries that just missed qualifying for MCA grants, and program monitoring and oversight. Authorization for MCC operations in FY2006 are included in S. 600, as reported by the Senate Foreign Relations Committee.

MCC Background[1]

The concept is based on the premise that economic development succeeds best where it is linked to free market economic and democratic principles and policies, and where governments are committed to implementing reform measures in order to achieve such goals. The MCC differs in several fundamental respects from past and current U.S. aid practices:

- the size of the $5 billion commitment;
- the competitive process that will reward countries for past actions measured by 16 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The new initiative, which Congress authorized in January 2004 (Division D of P.L. 108-199),[2] is scheduled to phase in over a three-year period, beginning in FY2004. During the first year, MCC participation was limited to the 74 poorest nations with per capita incomes below $1,415 and that are eligible to borrow from the World Bank's International Development Association. The list expanded in FY2005 to include all countries with a per capita income below $1,465 (adding another 13 nations). Beginning in FY2006 and beyond, all lower-middle income countries with per capita incomes below roughly $3,035 may compete for MCC resources.

Country selection is based largely, but not exclusively, on the nation's record measured by 16 performance indicators related to the three categories, or "baskets," of good governance, economic freedom, and investing in people. Countries that score above the median on half of the indicators in each of the three areas qualify. Emphasizing the importance of fighting corruption, the indicator for corruption is a "pass/fail" test: should a country fall below the median on the corruption indicator, it will be disqualified from consideration unless other, more recent trends suggest otherwise. (See **Table 1** below for a complete list of the 16 performance indicators.) Administration officials, since announcing the MCC initiative in 2002, said that the selection process would be guided by, but not necessarily bound to the outcomes of the performance indicators. Missing or old data, general trends, and recent steps taken by governments might also be taken into account when annual decisions are made.

Eligibility to receive MCA assistance, however, does not necessarily result in an aid grant. Once selected, countries are required to submit program proposals —

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[1] For a more in-depth discussion of the original MCA proposal and issues debated by Congress in 2003, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*.

[2] **Table 2**, found at the end of this report, provides a summary of major MCA issues and compares positions approved by the House, Senate, and Conference Committee during the 2003 debate.

referred to as MCA Compacts — that have been developed through a broad-based, national discussion that includes input from civil society. The focus of program submissions may vary among countries in size, purpose, and degree of specificity, and are evaluated by the Corporation for, among other things, how well the Compact supports a nation's economic growth and poverty reduction goals. Only those Compacts that meet the MCC criteria will be funded. It is expected that successful Compacts will support programs lasting three to five years, providing a level of resources roughly equivalent to the largest providers of assistance in the country. This will most likely result in a significant increase of U.S. economic assistance to MCA participant countries.

To manage the new initiative, the Administration proposed and Congress authorized the creation of a Millennium Challenge Corporation (MCC), an independent government entity separate from the Departments of State and the Treasury and from the U.S. Agency for International Development (USAID). The MCC plans for an eventual staff of about 200, drawn from various government agencies, non-governmental organizations, and the private sector, and led by a CEO confirmed by the Senate. A Board of Directors, chaired by the Secretary of State and composed of the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, and the Corporation's CEO, oversees operations of the MCC and makes the country selections. Four additional Board members, two of which have yet to be confirmed by the Senate, are individuals from the private sector drawn from lists of proposed nominees submitted by Congressional leaders.[3]

The decision to house the MCA in a new organization was one of the most debated issues during early congressional deliberations of the President's foreign aid initiative. The Administration argued that because the MCA represents a new concept in aid delivery, it should have a "fresh" organizational structure, unencumbered by bureaucratic authorities and regulations that would interfere in effective management. Critics, however, contended that if the MCA is placed outside the formal U.S. government foreign aid structure, it would lead to further fragmentation of policy development and consistency. Some believed that USAID, the principal U.S. aid agency, should manage the MCA, while others said that the MCA should reside in the State Department where more U.S. foreign policy entities have been integrated in recent years. At least, some argued, the USAID Administrator should be a member of the MCC Board, which had not been proposed in the initial Administration request.

For FY2004, the Administration sought $1.3 billion for the MCA's first year, a level reduced by Congress to $994 million. The FY2005 budget proposed $2.5 billion while Congress approved $1.488 billion. The combined FY2004/2005 funding level of $2.48 billion is about one-third less than requested. The President initially planned a $5 billion MCA program by FY2006, but is proposing $3 billion for next year. Administration officials say that given congressional reductions the

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[3] On July 13, 2004, the Senate confirmed two of the four new Board members: Kenneth Hackett, President and CEO of Catholic Relief Services, and Christine Todd Whitman, former Governor of New Jersey and former head of the Environmental Protection Agency, 2001-2003. No further nominees have been submitted by the White House.

past two years and competing demands elsewhere, a $3 billion request is more realistic for FY2006.

MCC Implementation Steps and Issues

The passage of legislation on January 23, 2004 authorizing and funding the MCC for FY2004 (Division D of P.L. 108-199) launched a period of 90 days during which the new Corporation formed, issued required reports, consulted with Congress and the public, and selected first year participant countries. Within 10 days of enactment, the Board of Directors held its initial meeting to establish the program, and over the following weeks the Corporation identified "candidate" countries for FY2004, published the criteria and methodology to be used for country selection, solicited public comments, issued guidelines for Compact proposals, and, on May 6, 2004, selected 16 countries to participate in the MCA's first year of operations. This was followed on November 10 with the selection of FY2005 eligible MCA countries, an action that added one new participant to the FY2004 list. An additional 13 countries have also been named as threshold nations — those that just missed qualifying as eligible countries.

Implementation matters that continue to unfold in 2005 include the relationship of MCC programs with those operated by USAID, how the Corporation and USAID will support threshold countries to better prepare for future performance reviews, the awarding of MCA grants — in the form of Compacts — to MCA eligible countries, and the funding request for FY2006.

Establishing the Millennium Challenge Corporation

On February 2, 2004, the Board of Directors met, agreed to Corporation by-laws, and approved then-Under Secretary of State Larson as the interim CEO. Subsequently, the President nominated Paul Applegarth to be the permanent MCC CEO, an individual confirmed by the Senate on May 5. CEO Applegarth has held various international and development positions over the past 30 years, primarily in the private sector. His most recent position prior to the MCC was the Managing Director of Emerging Markets Partnership, serving as the COO of Emerging Africa Infrastructure Fund in 2002.

Naming FY2004 Candidate Countries

Also on February 2, the MCC Board issued a list of 63 "candidate" countries that would be reviewed for possible selection as MCA participants in FY2004. These countries, according to authorizing legislation, must be eligible for assistance from the World Bank's International Development Association, have a per capita income of $1,415 or less, and not be otherwise ineligible to receive U.S. assistance. The latter condition eliminated twelve countries — Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Guinea-Bissau, Liberia, Serbia, Somalia, Sudan, Uzbekistan, and Zimbabwe — that were statutorily barred from receiving American aid.[4]

Publishing the Selection Criteria and Methodology

Pursuant to reporting requirements set in the MCC legislation, the Corporation on March 5, 2004 sent to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the 63 candidate countries in FY2004. The report suggested that there would be relatively few and only minor changes to the criteria and methodology that had been outlined 15 months earlier. The same 16 performance indicators, as listed in **Table 1** below, would be utilized. In a few cases, data sources shifted from international institutions to national governments. This was especially true in cases where existing data for an indicator were old or incomplete.

Although the Corporation did not alter any of the original 16 performance indicators, it attempted to address additional criteria added by Congress in P.L. 108-199 through the use of supplemental data and qualitative information. While the legislative authorities broadly match criteria proposed by the Administration, lawmakers included four additional matters on which to evaluate a country's performance. These relate to the degree to which a country:

- recognizes the rights of people with disabilities;
- supports a sustainable management of natural resources;
- respects worker rights; and
- makes social investments, especially in women and girls.

For an evaluation of the rights of people with disabilities, the MCC reported that it would draw on information in the State Department's annual Human Rights Report, which includes a discussion of discrimination based on disability. Regarding natural resource management, the Corporation would also use the Human Rights Report as supplemental information on such issues as access to sanitation, deforestation, conservation of land and marine resources, land tenure institutions, and protection of threatened and endangered species. The State Department's Human Rights Report would also be used for additional information regarding worker rights, while statistics on girl's primary enrollment rates would supplement the four social investment performance indicators.

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[4] Various types of aid restrictions applied to these countries. For several — Burundi, Central African Republic, Cote d'Ivoire, Guinea-Bissau, and Sudan — U.S. aid was blocked because an elected head of government had been deposed by a military coup. For Cambodia and Uzbekistan, legislation banned FY2004 assistance to the central governments of these countries. Aid restrictions imposed on nations not cooperating in counter-narcotics efforts (Burma), that are on the terrorist list (Sudan), or in arrears on debt owed the United States (Liberia, Somalia, and Zimbabwe) also applied. Serbia could not receive aid in FY2004 unless the President issued a determination stating, among other things, that the government was cooperating with the International Criminal Tribunal. Notwithstanding these restrictions, each country remained eligible for humanitarian assistance from the United States.

The MCC also noted that it would use the most recent release (then October 2003) of Transparency International's Corruption Perception Index to update and supplement the World Bank's survey data on which corruption performance indicator is based. This was necessary because the World Bank information was last published in March 2003. Since the corruption indicator is a "pass/fail" measure, the quality and timeliness of the data are especially important.

Given the range and diversity of suggestions offered throughout the public and congressional debate of the MCC, many observers were surprised that the Corporation did not propose more substantive changes to the criteria and methodology. Some questioned how seriously the Administration considered alternative approaches and whether the Corporation would be open to future revisions.[5] During the public comment period and at congressional oversight hearings, some suggested that existing data sources needed to be refined or new surveys created in order to specifically measure a country's commitment on the four criteria added by Congress.

After further study of the criteria and methodology, the Corporation announced on August 26, 2004, a revised set of performance indicators that were used for the FY2005 selection process. The MCC lowered the inflation rate threshold from 20% to 15%, making it somewhat more difficult to pass this test (only 6 of the 63 candidate countries failed this test for FY2004). An indicator measuring girls' primary education completion rates replaced a broader measure used in FY2004 that did not disaggregate primary education graduation by gender. As noted above, including the means to measure country performance on key women and girls issues was one of the requirements added by Congress during deliberation on MCC authorizing legislation.

The Corporation further indicated that it will explore additional criteria and methodology changes for FY2006. Under consideration are options to:

- lower the inflation level to 10%.
- identify a measurement related to natural resource management; the MCC has created a working group to study possibilities.
- review other possible indicators that would better measure trade barriers that are linked with economic growth.
- develop a more comprehensive indicator than the current Days to Start a Business to gauge a government's commitment to entrepreneurship and private-sector ownership.
- consider additional gender-relation indicators.

Future criteria and methodology is also likely to be affected by an amendment to MCC authorizing legislation approved by Congress in P.L. 108-477. Lawmakers added a more specific definition of the performance criteria related to "investing in people." In the future, this category will extend to government policies promoting health and education, as the current performance indicators attempt to measure, plus

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[5] See, for example, Steve Radelet, et al., *A Comment on the Millennium Challenge Account Selection Process*, Center for Global Development, March 9, 2004.

other factors contributing to the well-being and productivity of its citizens, including access to affordable housing.

Country Selection — FY2004

On May 6, the MCC Board of Directors determined that 16 countries would be eligible for FY2004 MCA funding and invited each to submit program proposals:

Armenia	Madagascar
Benin	Mali
Bolivia	Mongolia
Cape Verde	Mozambique
Georgia	Nicaragua
Ghana	Senegal
Honduras	Sri Lanka
Lesotho	Vanuatu

As expected, the selection process raised a number of questions and concerns. The Administration had previously said that the Board would be guided by, but not entirely bound to, the outcome of the performance indicator review process; that Board members could apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations, officials noted.

The final selection reflected decisions that both strictly followed the performance indicator outcomes and applied Board discretion to take into account other factors. Ten of the countries complied with the stated criteria: performing above the median in relation to their peers on at least half of the indicators in each of the three policy "baskets" and performing above the median on corruption. The Board also examined whether a country performed substantially below average on any single indicator and whether their selection was supported by supplemental information. Each of the ten countries also passed these additional tests.

For ten other countries, however, some discretion was applied by the Board. In three cases, countries which met the criteria but fell significantly below average on one indicator were still selected by the Board due to recent policy changes or positive trend lines. Cape Verde, for example, scored poorly on the Trade Policy indicator, but the Board took into account the country's progress towards joining the World Trade Organization and implementing a value added tax that will reduce reliance on import tariffs. Lesotho did not score well on the measurement for Days to Start a Business. The MCC Board, however, took note of Lesotho's creation of a central office to facilitate new business formation and saw positive performance on other factors related to business start-ups. Sri Lanka scored far below the median on Fiscal Policy, but the most recent trends suggested that the government was making progress in reducing its budget deficit.

For three other countries — Bolivia, Georgia, and Mozambique — the Board deviated from a strict application of the selection criteria because of evidence that the governments were taking corrective actions in the deficient areas. Bolivia fell at the median (as opposed to above the median) on the corruption indicator, something that would eliminate it from consideration. The Board, however, noted that President Mesa, who took office in October 2003, had created a cabinet position to coordinate anti-corruption activities and an office to investigate police corruption. Georgia, with a newly elected government that had created an anti-corruption bureau and taken other steps to fight corruption, was also selected despite scoring below the median on corruption and three other "ruling justly" indicators. Mozambique, which failed on corruption and each of the four "investing in people" indicators, was chosen based on supplemental data that was more current than information available from the primary data sources. This evidence, the Board felt, demonstrated Mozambique's commitment to fighting corruption and improving its performance on health and education.

On the other hand, the MCC Board chose not to select four countries that technically met the performance criteria but fell substantially below the median on one or more indicator. In each of these cases, the Board did not believe that the government was taking any action to improve its performance. Although Bhutan, Mauritania, and Vietnam passed the corruption hurdle and half of the "ruling justly" indicators, they scored very low on the measurements for Political Rights and Civil Liberties, and in Vietnam's case, on the Voice and Accountability indicator. A fourth country — Guyana — was also not selected despite passing the necessary hurdles. It scored particularly low on the Fiscal Policy measurement.[6]

It has been long assumed by MCC officials and close observers of the MCA initiative that when the country selections were announced, there would be disagreements and possible surprises in the final list, especially if the Board exercised its discretionary authority as it did for FY2004 participants. Representative Lowey, for example, expressed her view at a May 13, 2004 House Appropriations Committee hearing that East Timor, which failed to pass the "economic freedom" hurdle in part due to missing data on two of the indicators, should have been selected. CEO Applegarth responded that East Timor is a new nation and that it was premature to conclude that it was a "high-performing" country. He acknowledged, however, that East Timor should be given close consideration in the future if the current trend lines continue.

Besides East Timor, some suggested that Kenya should have been included because of its new government's commitment to education and anti-corruption efforts. USAID Administrator Natsios acknowledged at the May 13 hearing that Albania was a "close call," failing because it scored slightly below the median on corruption. Like Albania, Malawi and Moldova would have qualified on the basis of performance if not for slightly failing scores on corruption. Several small island states, including Kiribati, Sao Tome, and Tonga, were not selected even though the absence of data for several categories may have played a role.[7]

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[6] For a complete statement regarding the Board's rationale, see *Report on the Selection of MCA Eligible Countries for FY2004*, found at [http://www.mcc.gov], "Congressional Reports."

[7] As noted below, East Timor, Albania, and Sao Tome were subsequently selected as three (continued...)

Despite these questions over specific country eligibility, the selection process appeared to have satisfied two major concerns that have been consistently expressed over the past year. Based on earlier analysis, some argued that Africa would be under-represented in the final selection process, with perhaps as few as three regional states participating. In fact, eight, or half of the first year qualifying nations are from Africa.

Selection of countries that would give the appearance of geostrategic considerations was an additional concern of many who view the absence of security-related factors from MCA decision-making as one of the most attractive features of the initiative. For the most past, the Board appeared to have avoided this concern. Had the Board used its discretionary powers to select Indonesia, for example, some critics would have likely charged that the decision stemmed more from Jakarta's role in the war on terrorism than on strict policy performance. Indonesia passed all necessary hurdles except for corruption. Some, nevertheless, have questioned whether Georgia's selection was driven by broad U.S. foreign policy objectives of assisting a smooth political transition in the country rather than a choice based on performance.[8] Likewise, Bolivia, a country in which the United States maintains strong counter-narcotics goals, had been experiencing a period of instability despite strong performance prior to October 2003. Both Georgia and Bolivia were selected despite not strictly meeting the MCA performance criteria.

Naming Candidate Countries — FY2005

On July 20, 2004, the MCC Board of Directors launched the initial step in the FY2005 selection process by naming 70 candidate countries, 7 more than were reviewed for FY2004. After adjusting the per capita income upward to $1,465[9] and dropping the requirement that a country must be an IDA-eligible borrower from the World Bank, 11 new countries were added to the list: China, Egypt, Equatorial Guinea, Iraq, Morocco, Paraguay, Philippines, Swaziland, Turkmenistan, Tuvalu, and Ukraine. Four countries fell off the FY2005 list that had qualified in FY2004 — Albania, Bosnia and Herzegovina, Cape Verde, and Tonga — because their per capita income grew beyond the $1,465 cutoff. Thirteen other nations were excluded because they were ineligible for other U.S. economic assistance.[10]

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[7] (...continued)
of the seven "threshold" countries that will receive assistance to help the country meet the MCA requirements.

[8] See Steve Radelet, *A Note on the MCC Selection Process for 2005*, September 23, 2004, found at [http://www.cgdev.org].

[9] The MCC plans to adjust the per capita income threshold each year to correspond to the per capita income cutoff of the "historic ceiling" of IDA lending, a calculation made by the World Bank. In future years when all lower-middle income countries will be eligible to compete, the MCC also will adjust that threshold — which grew from $2,975 in 2003 to $3,035 in 2004 — in the consideration of determining candidate countries.

[10] Eleven of these countries were also excluded in FY2004. Serbia, which was barred from consideration for FY2004, exceeded the per capita income limit for FY2005 so was not
(continued...)

Country Selection — FY2005

Meeting on November 8, the MCC Board of Directors made its selection of FY2005 eligible countries:

Armenia	Mali
Benin	Mongolia
Bolivia	Morocco
Georgia	Mozambique
Ghana	Nicaragua
Honduras	Senegal
Lesotho	Sri Lanka
Madagascar	Vanuatu

The Board chose one new country for FY2005 — Morocco — while 15 of the 16 nations included for FY2004 were determined eligible again for FY2005. Cape Verde was not selected due to the fact that its per capita GNI exceeded the $1,465 ceiling. Cape Verde, however, remains eligible for MCA support using FY2004 funds. Board selections represented both a high degree of continuity between FY2004 decisions as well as a sharp difference in the degree to which it applied its discretionary authority for qualifying or denying countries for FY2005.

Continuity in the FY2005 Selection Round. The fact that each country (except Cape Verde) selected for FY2004 MCA participation was also declared eligible for FY2005 should not be surprising, given the nature of the MCA concept. The Board identified in May 2004 what it determined to be the 16 "best performers" based on the assumption that these countries had, and would continue to express, a strong commitment to the types of economic, governance, and social policy reforms measured by the MCC. Absent a substantial negative development since May, there was a presumed expectation that these same countries would score well in a subsequent performance comparison with their income peers. Moreover, except in some extreme situations, evidence of a slide in policy performance as measured through the various data sources would likely lag behind the actual policy shift and not be reflected in the immediate data updates.

In addition, two other factors that may not apply in future years seem to have affected the outcome for FY2005. First, with the selection dates for FY2004 and FY2005 coming only six months apart — rather than one year, as should be the case in the future — it was likely that the data would indicate less change than might be the case if the comparisons occurred over a longer period. Between May and November, several of the data sources upon which the 16 performance indicators are

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[10] (...continued)
under consideration. Syria and Cuba, which became potential candidate countries beginning in FY2005, were excluded because of a ban on direct aid to the countries. See Footnote 4, above, for a complete list of countries and aid restrictions.

based did not update or revise their figures.[11] As a result, the review of countries for FY2005 was based on much of the same data and rankings as had been the case for the FY2004 selection.

Moreover, the addition of 13 new countries for consideration in the FY2005 round had the effect for at least six of the indicators of lowering the median against which countries were compared. Because of this, if a country scored well — above the median — in the FY2004 selection decision, it was likely that it would score the same or better in the review for FY2005 where medians declined. For example, in May Bolivia fell exactly at the median on the corruption indicator. But in November, when the median for corruption dropped somewhat after new countries were added, Bolivia scored above the median even though Bolivia's score on corruption did not change. This phenomena is unlikely to be repeated again to the same extent since countries in the low-income group will be added or subtracted only if their economy grows beyond the per capita income ceiling or U.S. foreign aid sanctions are applied or lifted since the last review. The net effect is that the core set of low-income countries competing for MCA selection is unlikely to change as much as it did in FY2005, thereby reducing the extent to which the median will be altered simply because of the addition of new countries.

Excluding More Countries that Qualified. Despite the degree of continuity between FY2004 and FY2005 in the selection of eligible countries, the MCC Board departed somewhat from the previous round by not selecting a large number of countries that technically met the MCA performance criteria. Many observers raised questions over the FY2005 selections regarding the countries that were *not* selected rather than those that were.

As noted above, in May 2004, the Board chose not to select four countries — Bhutan, Guyana, Mauritania, and Vietnam — although each passed the minimum number of indicators. The Board decided to exclude these four because they scored "substantially below" the median on one or more measurements, although without defining precisely what represented a mark "substantially below"the median.

For FY2005, the Board did not select 10 countries that met the criteria, including three of the four left out of the FY2004 round (Mauritania did not meet the minimum qualifications). In addition, for FY2005 Burkina Faso, China, Djibouti, Egypt, Nepal, the Philippines, and Swaziland met the minimum standards but were not selected. The Corporation offered little explanation as to why these countries were not chosen.[12] It appears, however, that scoring "substantially below" — perhaps

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[11] This is not true for the performance indicators of Inflation and Primary Girls Graduation Rate, which were modified for the FY2005 selection, or for the indicators measuring Days to Start a Business, Civil Liberties, and Political Freedom which were updated in 2004. For some of the other economic and social investment indicators where data were drawn from national sources, revised figures were used in the FY2005 selection, but only where available. World Bank data for six governance-related indicators and the Trade Policy measurement, however, were not revised between May and November 2004.

[12] The MCC's authorizing legislation (section 608(d)) requires the Corporation's CEO to (continued...)

in the lowest 25th percentile — has become a de-facto criteria for exclusion. For example, the Corporation's CEO Paul Applegarth commented that the Philippines, a country that passed 13 of the 16 indicators, did not qualify because Manilla scored "substantially below" the median on tests for health expenditures and fiscal policy, and that more recent trends indicated the fiscal policy situation was deteriorating further.[13] Each of the other nine nations that met the minimum qualifications but were not selected also had one score in the 25th percentile, although the Corporation has not commented on whether this was the reason for not choosing them.

Another possible reason for limiting the number of qualifying countries in the FY2005 round might be due to funding reductions that were anticipated in early November. The Administration had requested combined FY2004/FY2005 appropriations of $3.8 billion, but was more likely, at the time of selection, to have available 25%-35% less, depending on the outcome of congressional debate on the FY2005 budget. Corporation officials have said that reduced funding would lead to fewer countries assisted and/or smaller grants per country, a situation that would be complicated further by qualifying additional nations.

Instead, the Board of Directors invited three of these 10 countries to participate in the Threshold Program, intended to help "near-miss" nations take steps to strengthen areas that would help them qualify for full MCA assistance in the future. Burkina Faso, Guyana, and the Philippines may now apply for Threshold Program assistance.

Another Board departure in the FY2005 selection process was to avoid using its discretionary authority to qualify countries that did not meet the minimum performance indicators. In May, the Board chose three nations — Bolivia, Georgia, and Mozambique — that did not pass the so-called "hard-hurdle" of corruption. The latter two again qualified despite falling below the median on corruption, while Bolivia did not require an exemption after the median dropped below its score with the addition of new countries. For FY2005, five nations — Malawi, Moldova, Paraguay, Tanzania, and Ukraine — passed the required number of performance indicators, except corruption. Although Malawi, Paraguay, and Tanzania are Threshold Countries, none of the five were chosen for full MCA status.

MCA Compacts and Program Proposals

The next step for qualified countries is the preparation and negotiation with the MCC of program proposals, referred to as MCA Compacts. Only those Compacts that demonstrate a strong relationship between the program proposal and economic

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[12] (...continued)
provide justification to Congress regarding only those countries declared as eligible for MCA assistance and for those selected for Compact negotiation. Otherwise, there is no statutory requirement for the MCC to comment on its decision-making process, including the rationale for not selecting specific countries.

[13] Comments by Paul Applegarth at a State Department Foreign Press Center Briefing, November 9, 2004.

growth and poverty reduction will receive funding. Not all qualified MCA countries may submit successful Compacts.

While acknowledging that Compact contents likely will vary, the Corporation expects each to discuss certain matters:

- a country's strategy for economic growth and poverty reduction, impediments to the strategy, how MCA aid will overcome the impediments, and the goals expected to be achieved during implementation of the Compact.;
- why the proposed program is a high priority for economic development and poverty reduction and why it will succeed; the process through which a public/private dialogue took place in developing the proposal;
- how the program will be managed, monitored, and sustained after the Compact expires;
- the relationship of other donor activities in the priority area;
- examples of projects, where appropriate;
- a multi-year financial plan; and
- a country's commitment to future progress on MCA performance indicators.

Madagascar and Honduras — the First MCA Compacts.[14] The Corporation did not set hard deadlines for Compact submissions in order to allow countries adequate time to conduct a national dialogue over the contents of the program proposal. As of December 1, 2004, the MCC had received proposals and "concept papers" from 15 of the 16 FY2004 eligible countries, and began the next phase — negotiating formal Compacts — with several countries. Meeting on March 14, 2005, the MCC Board of Directors announced the first Compact with Madagascar, an agreement that was signed on April 18. At the Board's meeting on May 20, a Compact with Honduras was approved, with signing expected in June. The Corporation has also notified Congress that Compact negotiations are underway with Georgia, Nicaragua, and Cape Verde, and that final agreements for at least one could be announced at the Board's next meeting in June.

Madagascar Compact. The Madagascar Compact is a four year, $110 million program, focusing on rural agriculture development and poverty reduction. Specifically, the project has three objectives: 1) to increase land titling and land security ($36 million); 2) to expand the financial sector and increase competition ($36 million); and 3) to improve agricultural production technologies and market capacity in rural areas ($17 million). According to the Corporation's CEO, the Compact is designed to assist Madagascar's rural poor, which account for 80% of the nation's impoverished population, and generate income by expanding opportunities to own land, to access credit, and to gain technical training in agriculture and market identification.

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[14] Details of the Madagascar and Honduras Compacts can be found at the MCA website: [http://www.mcc.gov]. Specific information on Madagascar is available at [http://www.mcc.gov/compacts/madagascar.shtml].

Elements of the design, negotiation, and completion of the Madagascar Compact met several of the key criteria of the MCA process. For example, discussions regarding the scope and purpose of the MCA grant occurred at the regional and national level in Madagascar that included broad representation of civil society. Management and oversight of the Compact will be handled by a new entity, MCA-Madagascar, whose Steering Committee will include government and non-government officials. Both of these steps underscore the "country-ownership" and broad participatory nature of MCA programs. The Compact also includes fiscal accountability requirements concerning audits, monitoring, and evaluation that support the transparency concept of the MCA. While the $110 million MCA grant will be fully obligated when the Compact enters into force, resources will be transferred periodically following a determination that performance continues satisfactorily. This funding plan emphasizes the MCA principles of accountability and results. Other issues related to major MCA concepts and principles and how they are highlighted in the Madagascar program agreement will be examined once the complete text of the Compact is available following entry into force.

One matter, however, which has drawn the close attention of Congress and development policy analysts concerns the size of Madagascar's MCA grant. While Administration officials have said repeatedly that Compacts will be funded at various levels depending on the nature and potential impact of the proposal, the presumption has been that the MCA grant would represent a sizable increase in U.S. assistance to the eligible country. In order to realize its potential as a "transformational" aid program and to provide sufficient incentives to countries requesting "breakthrough" projects, the MCC says that the size of its grants must place MCA assistance among the top aid donors in a country.[15]

The four-year, $110 million Compact for Madagascar, however, does not appear to meet this criteria. USAID "core" economic aid programs in Madagascar have averaged about $20 million in recent years, with an additional supplement of $6 to $12 million in annual food aid. The $28 million per-year average of the MCA Compact will approximately double the level of U.S. assistance to Madagascar, assuming USAID maintains its program at current levels. But the MCA grant, it appears, will not be among the largest aid activities in Madagascar. France is the largest bilateral donor, providing on average $60 million, 2000-2002, a level that climbed substantially in 2003 to $142 million. The European Commission's aid program, 2001-2003, has averaged $63 million per year, while the World Bank's International Development Association is Madagascar's largest source of concessional assistance of about $170 million lent in each of 2002 and 2003.[16] The $110 million Compact for Madagascar is also not very large relative to the country's population. Of the 16 qualified countries for FY2004, Madagascar has the fourth largest population (16.4 million), and might have been expected to receive one of the larger MCA grants given its population size and its per capita income ($230, second lowest among the 16 MCA countries).

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[15] See, for example, Millennium Challenge Corporation FY2005 Budget Justification, p. 7. Found at [http://www.mcc.gov/about_us/key_documents/index.shtml].

[16] Organization for Economic Cooperation and Development, *Geographical Distribution of Financial Flows to Aid Recipients, 1999/2003: 2005 edition.* p. 172.

Honduras Compact. The five-year, $215 million MCA Compact with Honduras focuses on two objectives — rural development and transportation. The rural development project, representing $72.2 million of the Compact, will assist small and medium-size farmers enhance their business skills and to transition from the production of basic grains to horticultural crops, such as cucumbers, peppers, and tomatoes. According to CEO Applegarth, these vegetable crops will generate about $2,000 to $4,000 in annual income per hectare, compared with roughly $500 for basic grains. The project intends to provide farmers with the appropriate infrastructure and necessary training for producing and marketing these different crops. The transportation project, totaling $125.7 million of the Compact, will improve the major highway linking Honduran Atlantic and Pacific ports, and major production centers in Honduras, El Salvador, and Nicaragua. Rural roads will also be upgraded, helping farmers transport their goods to markets at a lower cost. Specific results sought in the Compact are:

- double productivity in 15,000 hectares in rural areas
- expand access to credit for farmers by over 20%
- upgrade the major road that links Honduras with commercial centers
- upgrade about 1,500 kilometers of rural roads

At nearly twice the size of the Madagascar Compact, the $215 million Honduras Compact will provide on average $43 million additional U.S. assistance over the five years of the program. By comparison, USAID development activities have averaged about $35 million the past two years, with $29 million requested for FY2006. U.S. disbursements of development assistance to Honduras, according to OECD sources, averaged over $100 million annually, 2000-2003. These higher levels reflect substantial assistance provided following the devastation of Hurricane Mitch in 1999. The United States has been Honduras' top aid donor in recent years, followed by Japan, the World Bank, and the Inter-American Development Bank.[17]

"Threshold" Countries and U.S. Assistance

In order to encourage non-qualifying countries to improve in weak areas, the United States will help governments that are committed to reform to strengthen performance so that they would be more competitive for MCA funding in future years. Congress provided in authorizing legislation that not more than 10% of MCA appropriations ($99.4 million in FY2004) could be used for such purposes, stating that the funding could be made available through USAID. The MCC set aside up to $40 million for countries that just missed qualifying for FY2004 funding and projects an additional $90 million for FY2005, subject to the quality of submitted proposals.[18]

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[17] OECD. *Geographical Distribution of Financial Flows to Aid Recipients, 1999-2003*, p. 152.

[18] Initially, assistance for Threshold countries was authorized only for FY2004. The FY2005 Foreign Operations Appropriations (Division D of P.L. 108-447, the Consolidated Appropriations Act for FY2005, makes 10%, or $149 million of the new appropriation available Threshold assistance.

The Corporation has made two announcements regarding the selection of Threshold Countries. On September 30, the Corporation named seven participants: Albania, East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda, and Yemen. Five weeks later, on November 8, the MCC added six more nations for FY2005: Burkina Faso, Guyana, Malawi, Paraguay, the Philippines, and Zambia. According to the Threshold Program Policy guidance issued by the Corporation,[19] the program will assist countries make policy reforms and institutional changes in areas where they failed to meet the MCA performance criteria. In order to qualify for Threshold Program FY2004 assistance, countries must have submitted by January 31, 2005, concept papers identifying:

- where and why the country failed to pass specific indicators;
- proposals for policy, regulatory, or institutional reforms that would improve the country's performance on these indicators; and
- types of assistance, over a two-year maximum period, required to implement these reforms.

If the Corporation, in consultation with USAID, determines that the concept paper shows sufficient commitment to reform and a promise of success, the country will prepare a Threshold Country Plan that specifically establishes a program schedule, the means to measure progress, and financing requirements, among other considerations. USAID is charged with overseeing the implementation of Threshold Country Plans, including working with countries to identify appropriate implementing partners such as local, U.S., and international firms; NGOs; U.S. government agencies; and international organizations. Like regular MCA Compacts, funding is not guaranteed for each country selected for the Threshold Program, but will be based on the quality of the Country Plan.

Role of USAID and the Future of Agency Programs in MCA Countries

As noted above, how USAID would participate in the MCA initiative has been a continuing concern of Congress and various policy analysts. Legislation authorizing the MCC requires the Corporation's CEO to coordinate with USAID and directs the Agency to ensure that its programs play a primary role in helping candidate countries prepare for MCA consideration. Corporation and USAID officials have said there will be close collaboration between the two entities, although the precise nature of the relationship has yet to be made public. USAID maintains missions in 14 of the 17 eligible countries and might be expected to support MCC programs, through contracting, procurement, and monitoring tasks.

Another question is how USAID will adjust its own programs in MCA countries, especially where the Agency maintains relatively small activities in relation to other donors. Since the goal is to provide resources that will make MCA programs among the largest aid operations in a country, it was anticipated that

[19] Found at [http://www.MCC.gov].

USAID spending would fall well below amounts provided through MCC Compacts. For example, in Mongolia, where U.S. aid programs have totaled $10-$12 million annually in recent years, the United States was the fourth largest bilateral donor in 2002, representing less than a quarter of the size of Japan's economic aid disbursements. In Ghana, Senegal, and Sri Lanka, USAID maintains larger programs but spends far less than other countries and multilateral agencies. But in the case of the first Compacts for Madagascar and Honduras, the MCA grants are only somewhat higher on a per-year average ($28 million for Madagascar and $43 million for Honduras) than USAID's "core" economic aid programs (about $20 million for Madagascar and $34 million for Honduras).

Like other issues involving USAID, this question remains under review. USAID Administrator Natsios told the House Appropriations Committee on May 9, 2004 that the Agency would not withdraw from or cut programs in MCA countries, but would not increase spending either. He said, however, that USAID would work to ensure that its programs operate in an integrated way with MCA-funded activities.

The first test will come in Madagascar where the MCA Compact focuses on rural agriculture, land tenure, and the financial sector, with an anticipated outcome of protecting the country's fragile ecosystem. USAID's current program is largely targeted on preventing sexually transmitted infections and HIV/AIDS, strengthening health services, improving the nation's governance capacity, conserving Madagascar's biologically diverse forest ecosystems, and promoting agriculture market development and trade. The latter two objectives appear to be consistent with the MCA Compact. Adjustments to USAID's program could be made in the future, however, as the Agency undertakes a review of its strategic goals now that Madagascar entered into an MCA program.

Funding Issues — Previous and in the 109th Congress

As mentioned above, Congress appropriated $994 million for FY2004 MCC programs and an additional $1.488 billion for FY2005. The enacted appropriation for FY2005 is 40% below the President's $2.5 billion request. The MCC recommendation was by far the largest increase sought by the Administration in the Foreign Operations appropriations proposal and viewed by many observers as one of the most vulnerable items in an increasingly difficult budget environment. In earlier congressional action, House and Senate Budget Committees (H.Con.Res. 393 and S.Con.Res. 95) recommended reductions in international affairs spending, suggesting that much of the proposed cuts could be achieved by trimming back the MCC request. Legislation authorizing appropriations for the MCC reported by the Senate Foreign Relations Committee (S. 2144) would have reduced the level to $2 billion.

Foreign Operations appropriation bills passed in both the House and Senate (H.R. 4818) made substantial reductions to the President's MCC request for FY2005. The bill, as approved by the House, reduced by half the President's $2.5 billion proposal. In cutting the MCC proposal, the House Appropriations Committee noted that its decision resulted solely from the constrained budget environment in FY2005 and the need to address other Administration and Congressional priorities. The executive branch, in its Statement of Administration Policy on H.R. 4818, expressed its "disappointment" over the level of MCC funding and urged Congress to increase resources. During floor debate on July 15, the House defeated (41-379) an amendment by Representative Paul to eliminate all MCC appropriations.

The House Committee, in its report on H.R. 4818, also expressed concern over Corporation plans to enter into multi-year Compacts without committing total funding for these programs in the year the Compact is signed. This, the Committee believed, would obligate future Congresses to fund prior year contracts. Consequently, the bill required the MCC to only sign Compacts for which complete funding was available from existing appropriations. The House Committee also recommended that Compacts be limited to a 3-4 year period rather than a 3-5 year duration envisioned by the MCC.

The Senate measure — also H.R. 4818, as amended to incorporate the text of S. 2812, proposed a more significant cut to the President's MCC request — to $1.12 billion. Despite the reduction, the Senate Appropriations Committee noted its strong support for the program.

Following strong pressure from the White House to increase MCC funding above House and Senate-passed levels, conferees settled on $1.5 billion for the MCC in FY2005, adjusted downward to $1.488 billion by an across-the-board rescission requirement. Like the House bill, the conference agreement requires that the MCC fully fund multi-year compacts selected in FY2004 and FY2005.

For some time, some Members of Congress have raised questions regarding whether sufficient funds will be available to support MCC programs in every country selected, especially if the Board continues its practice of selecting more countries than meet the strict criteria. Representative Kolbe, chairman of the House Foreign Operations Subcommittee, speculated at a May 9, 2004, hearing that based on recent Board decisions, by 2006, as many as 40 countries might have qualified. This, he believed, could not be fully supported with likely funding levels, and might raise country expectations that could not be met and undermine program incentives.

MCC officials point out that qualification for the program does not mean that a government will receive funding. That decision will be based on the quality of the Compact proposals and it is possible that the Corporation will not finalize agreements with all eligible countries. Nevertheless, the Corporation's CEO Paul Applegarth acknowledged the funding dilemma for future MCC operations at a Senate Foreign Relations Committee hearing on October 5, noting that the sum of proposals received thus far totaled $4.2 billion.

A March 2004 GAO report estimated that the MCC could adequately fund 8-13 Compacts with an appropriation of $3.5 billion (the combined FY2004 enacted and FY2005 requested amounts). This suggests, that even if Congress had fully funded the FY2005 proposal, the Corporation would not be able to support programs in all 17 countries approved for FY2004 and FY2005. With $1 billion less than the assumption used by GAO in its assessment, the MCC may face increasing difficulties funding Compacts of a sufficient size that will have a meaningful impact on a country's economic growth and poverty reduction goals. This may lead to further congressional examination of the Board's selection process and consideration of ways to limit the number of countries selected in the future.

MCA Request for FY2006. The Administration seeks a $3 billion appropriation for FY2006, a level that has been criticized for being both too small and too large. Some argue that given the heightened budget pressures and proposed reductions for many domestic programs, coupled with the fact that the MCC has spent only $4 million of the nearly $2.5 billion in existing appropriations, a request for roughly double the amount provided in FY2005 is not warranted. Others, however, note that President Bush pledged an MCA funding level of $5 billion by FY2006 when he announced the initiative in March 2002, and believe the Administration should stick with its promise regardless of congressional reductions the past two years. The MCC calls its $3 billion budget proposal a realistic level given prior congressional actions and competing resource demands.

Countering the argument that the Corporation has spent only a fraction of its resources, MCC officials say that program proposals received thus far total more than $3 billion, not including Morocco (the largest eligible country), and will exhaust available resources by early 2006. The Corporation, in its FY2006 budget justification to Congress, estimates that it will sign 18 Compacts with low-income countries using FY2004-FY2006 funds, totaling just over $4 billion, or an average Compact size of nearly $225 million. The MCC budget assumptions also include four new Compacts in FY2006 with low-middle income countries which become eligible in FY2006 to compete for MCA grants. These costs would add $680 million or an average of $170 million per Compact. The remaining $800 million would be divided among amendments to earlier Compacts ($300 million), Threshold country programs ($270 million), and administrative and related expenses (over $200 million).

These MCA budget projections appear to assume that all, or nearly all eligible low-income countries will sign Compacts, and that four of the roughly 30 new low-middle income nations will reach an MCA agreement by the end of FY2006. If so, MCA financed programs could absorb the total $4.7 billion budgeted for Compacts, FY2004-2006, but only if subsequent Compacts are of the size of the Honduras Compact and significantly larger in dollar terms than the Madagascar program. Another outcome that could place fiscal constraints on the MCC is if a substantial number of new low income countries are selected for FY2006. Based on previous experience and assumptions set out in the Corporation's FY2006 budget justification, this scenario is unlikely.

Implications for the FY2007 budget are also unclear. Because a country must complete one MCA program before applying for a second, none of the 22 potential Compact countries assumed in the MCC budget documents would be eligible for a subsequent grant until FY2008. Given that only one new country was added to the eligible list in FY2005, and that the MCC projects another five in FY2006, a possible FY2007 funding level of between $3 and $5 billion would suggest several possible scenarios: a surge (unlike FY2005 and FY2006) in the number of newly eligible countries, possibly including the elevation of Threshold countries to full MCA eligible status; significant amendments to existing Compacts increasing their size;

or the creation of a large funding reserve that could be utilized in subsequent years as current MCA countries complete programs and apply for new grants.

In the first legislative action on the FY2006 MCA request, the Senate Foreign Relations Committee, in S. 600, authorizes $3 billion, as proposed, and such sums as may be necessary for FY2007. Appropriations Committees will take up the funding issue beginning in June.

Table 1. MCA Candidate, Eligible, and Threshold Countries — FY2004

Criteria: IDA-eligible, per capita income $1,415 and below, and not prohibited from receiving other U.S. economic assistance.

Eligible Countries are in Bold.
Threshold Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$660	East Timor (TC)	$430	**Bolivia**	$940
Benin	$390	Indonesia	$680	Guyana	$840
Burkina Faso	$220	Kiribati	$810	Haiti	$440
Cameroon	$560	Laos	$310	**Honduras**	$920
Cape Verde	$1,290	**Mongolia**	$440	**Nicaragua**	**
Chad	$220	Papua New Guinea	$580		
Comoros	$390	Solomon Islands	$570		
Congo, Dem Rep of	$90	Tonga	$1,410		
Congo, Rep of	$700	**Vanuatu**	$1,080		
Eritrea	$160	Vietnam	$430		
Ethiopia	$100				
Gambia	$280	**South Asia**	**Income***	**Mid-East**	**Income***
Ghana	$270	Afghanistan	**	Djibouti	$900
Guinea	$410	Bangladesh	$360	Yemen (TC)	$490
Kenya (TC)	$360	Bhutan	$590		
Lesotho	$470	India	$460		
Madagascar	$240	Nepal	$230		
Malawi	$160	Pakistan	$420		
Mali	$240	**Sri Lanka**	$840		
Mauritania	$340				
Mozambique	$210	**Eurasia**	**Income***	**Europe**	**Income***
Niger	$170	**Armenia**	$790	Albania(TC)	$1,380
Nigeria	$290	Azerbaijan	$650	Bosnia	$1,270
Rwanda	$230	**Georgia**	$720		
Sao Tome & Principe (TC)	$290	Kyrgyz Rep.	$290		
Senegal	$470	Moldova	$460		
Sierra Leone	$140	Tajikistan	$180		
Tanzania (TC)	$280				
Togo	$270				
Uganda (TC)	$240				
Zambia	$330				

* Gross National Income, dollars per capita, 2002. *World Bank Annual Report, 2003.*
** Precise data unavailable.

Table 2. MCA Candidate, Eligible, and Threshold Countries — FY2005

Criteria: Per capita income $1,465 and below, and not prohibited from receiving other U.S. economic assistance.

Eligible Countries are in Bold.
Threshold Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$740	China	$1,100	**Bolivia**	$890
Benin	$440	East Timor (TC)	$430	Guyana(TC)	$900
Burkina Faso (TC)	$300	Indonesia	$810	Haiti	$380
Cameroon	$640	Kiribati	$880	**Honduras**	$970
Chad	$250	Laos	$320	**Nicaragua**	$730
Comoros	$450	**Mongolia**	$480	Paraguay(TC	$1,100
Congo, Dem Rep	$100	Papua New Guinea	$510		
Congo, Rep of	$640	Philippines (TC)	$1,080		
Equatorial Guinea	**	Solomon Islands	$600		
Eritrea	$190	Tuvalu	**		
Ethiopia	$90	**Vanuatu**	$1,180		
Gambia	$310	Vietnam	$480		
Ghana	$320				
Guinea	$430	**South Asia**	**Income***	**Mid-East**	**Income***
Kenya (TC)	$390	Afghanistan	**	Djibouti	$910
Lesotho	$590	Bangladesh	$400	Egypt	$1,390
Madagascar	$290	Bhutan	$660	Iraq	**
Malawi (TC)	$170	India	$530	**Morocco**	$1,320
Mali	$290	Nepal	$240	Yemen (TC)	$520
Mauritania	$430	Pakistan	$470		
Mozambique	$210	**Sri Lanka**	$930		
Niger	$200				
Nigeria	$320	**Eurasia**	**Income***	**Europe**	**Income***
Rwanda	$220	**Armenia**	$950		
Sao Tome & Principe (TC)	$320	Azerbaijan	$810		
Senegal	$550	**Georgia**	$830		
Sierra Leone	$150	Kyrgyz Rep.	$330		
Swaziland	$1,350	Moldova	$590		
Tanzania (TC)	$290	Tajikistan	$190		
Togo	$310	Turkmenistan	$1,120		
Uganda (TC)	$240	Ukraine	$970		
Zambia (TC)	$380				

* Gross National Income, dollars per capita, 2003. *World Bank Annual Report, 2004.*
** Precise data unavailable.

Table 3. MCA Potential Candidate Countries — FY2006

Criteria: Per capita income $3,035 and below, and not prohibited from receiving other U.S. economic assistance.[20]

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$740	East Timor	$430	Belize	**
Benin	$440	Fiji	$2,360	Bolivia	$890
Burkina Faso	$300	Indonesia	$810	Brazil	$2,710
Cameroon	$640	Kiribati	$880	Colombia	$1,810
Cape Verde	$1,490	Laos	$320	Dominican Rep	$2,070
Chad	$250	Marshall Islands	$2,710	Ecuador	$1,790
Comoros	$450	Micronesia	$2,090	El Salvador	$2,200
Congo, Dem Rep of	$100	Mongolia	$480	Guatemala	$1,910
Congo, Rep of	$640	Papua New Guinea	$510	Guyana	$900
Equatorial Guinea	**	Philippines	$1,080	Haiti	$380
Eritrea	$190	Samoa	$1,600	Honduras	$970
Ethiopia	$90	Solomon Islands	$600	Jamaica	$2,760
Gambia	$310	Thailand	$2,190	Nicaragua	$730
Ghana	$320	Tonga	$1,460	Paraguay	$1,100
Guinea	$430	Tuvalu	**	Peru	$2,150
Kenya	$390	Vanuatu	$1,180	Suriname	**
Lesotho	$590	Vietnam	$480		
Madagascar	$290				
Malawi	$170	**South Asia**	**Income***	**Mid-East**	**Income***
Mali	$290	Afghanistan	**	Algeria	$1,890
Mauritania	$430	Bangladesh	$400	Djibouti	$910
Mozambique	$210	Bhutan	$660	Egypt	$1,390
Namibia	$1,870	India	$530	Iraq	**
Niger	$200	Nepal	$240	Jordan	$1,850
Nigeria	$320	Pakistan	$470	Morocco	$1,320
Rwanda	$220	Sri Lanka	$930	Tunisia	$2,240
Sao Tome&Principe	$320			Yemen	$520
Senegal	$550	**Eurasia**	**Income***		
Sierra Leone	$150	Armenia	$950	**Europe**	**Income***
South Africa	$2,780	Azerbaijan	$810	Albania	$1,740
Swaziland	$1,350	Belarus	$1,590	Bulgaria	$2,130
Tanzania	$290	Georgia	$830	Bosnia	$1,540
Togo	$310	Kazakhstan	$1,780	Macedonia	$1,980
Uganda	$240	Kyrgyz Rep.	$330	Romania	$2,310
Zambia	$380	Moldova	$590	Turkey	$2,790
		Russia	$2,610		
		Tajikistan	$190		
		Turkmenistan	$1,120		
		Ukraine	$970		

* Gross National Income, dollars per capita, 2003. *World Bank Annual Report, 2004.*
** Precise data unavailable.

[20] The $3,035 per capita GNI figure would be the ceiling for FY2005 but will be adjusted in July 2005 when the World Bank releases a new *World Development Report*. It is likely that the per capita GNI ceiling for lower-middle income countries will rise somewhat, but at this time, it is impossible to say what that level might be or precisely identify which countries will fall under the ceiling. This list is an estimate based on the current lower-middle income ceiling and those countries that are currently defined by the World Bank as lower-middle income and are not prohibited from receiving U.S. economic assistance.

Table 4. MCC Performance Indicators for FY2005

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Public Primary Education Spending as % of GDP** Sources: National governments	**Country Credit Rating** Source: Institutional Investor Magazine, September 2004.
Voice and Accountability Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Primary Girls' Education Completion Rate** Sources: World Bank and UNESCO	**Inflation** (must be below 15%) Source: Multiple
Government Effectiveness Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Public Expenditure on Health as % of GDP** Sources: National governments	**Fiscal Policy** Source: National governments and IMF World Economic Outlook
Rule of Law Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Immunization Rates: DPT and Measles** Sources: World Health Organization	**Trade Policy** Source: The Heritage Foundation, Index of Economic Freedom [http://www.heritage.org/research/features/index/]
Civil Liberties Source: Freedom House [http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf]		**Regulatory Policy** Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]
Political Freedom Source: Freedom House [http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf]		**Days to Start a Business** Source: World Bank [http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx]

Table 5. Comparison of MCA Authorization Legislation

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
MCA oversight	Board of Directors, chaired by Sec. of State, with Treasury and OMB	Board of Directors, chaired by the Sec. of State, with Treasury, USAID, USTR, and the MCA's Chief Executive Officer (CEO)	Board of Directors, chaired by Sec. of State, with Treasury, USTR, USAID, MCC CEO, and 4 others nominated by the President from a Congressional list. Non-voting members include OPIC, OMB, Peace Corps, and TDA.	Board of Directors, chaired by Sec. of State, with Treasury, USTR, USAID, MCC CEO, and 4 others nominated by the President that may come from list submitted by Congressional leaders.
MCA organization	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation whose CEO reports to and be under the direct authority and foreign policy guidance of the Sec. of State	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation
MCA coordinator	CEO of Corporation	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Sec. of State	CEO "heads" the Corporation, reporting to the President	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Board of Directors.

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
Interim CEO	—	—	—	Board of Directors may appoint a confirmed U.S. Government official to serve as interim CEO until a CEO has been confirmed by the Senate.
Selection of countries	Board of Directors	Board of Directors	CEO of Corporation	Board of Directors
MCC Advisory Council	None	None	Nine members named by the CEO to advise on MCA policy, review eligibility criteria, evaluate the MCC, assess MCC capabilities, and make recommendations to the CEO.	None

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
Country income eligibility	FY2004 - IDA eligible & per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005)	FY2004 - IDA eligible FY2005 - per capita GNI less than historical IDA cutoff for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA cutoff for the year ($1,465 in FY2005), plus, if appropriation exceeds $5 billion, low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 20%	FY2004 - IDA eligible & per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 20%	FY2004 - IDA eligible & per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 25%
Eligible entity	None stated	A government, including a local or regional government, or an NGO or private entity.	A national government, regional or local government, an NGO, an international organization and trust funds.	A national government, regional or local government, or an NGO or private entity.

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
Aid to "threshold" countries	General support	10% of MCA funds available for countries failing to qualify because of inadequate data or missing one indicator	15% of MCA funds available for countries demonstrating a development commitment but fail to meet a sufficient number of performance indicators	10% of MCA funds available for countries showing a commitment to MCA criteria but fail to qualify
Oversight and reports	MCA contracts and performance posted on the Internet.	Disclosure in Federal Register and on the Internet of eligible countries, programs supported, and performance; proposed performance indicators open to public comment; annual report to Congress	CEO consultation with Congress on eligibility criteria; notification 15 days in advance on grants exceeding $5 million; "Compacts" with countries published in Federal Register and on the Internet; advance notification of aid termination; annual reports to Congress from the CEO and Advisory Council	Establishes a period of at least 95 days during which Congress will receive the list of "candidate countries," the eligibility criteria and methodology for making a final selection, and the list of "eligible" countries (those that will receive MCA assistance). Consultation with congressional committees will occur during this period and the information will be published in the Federal Register. "Compacts" with countries will be reported to Congress and published in Federal Register.

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
				Annual report by March 31.
Funding	FY2004 - $1.3 billion FY2005 - no decision FY2006 - $5 billion	FY2004 - $1 billion FY2005 - $2.3 billion FY2006 - $5 billion	FY2004 - $1.3 billion FY2005 - $3 billion FY2006 - $5 billion	Such sums as may be necessary for FY2004 and FY2005.

a. The Senate position is based on S. 925, the Foreign Affairs Act, Fiscal Year 2004, as amended, but not passed during debate on July 9 and 10, 2003. The House position is taken from H.R. 1950, an omnibus foreign policy authorization measure which passed the House on July 16, 2003.